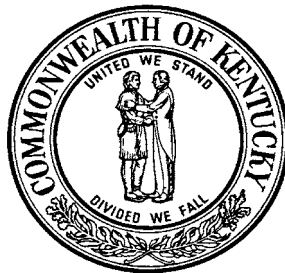


**REPORT OF THE AUDIT OF THE
FORMER JACKSON COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER JACKSON COUNTY CLERK

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the former Jackson County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$13,416 from the prior calendar year, resulting in excess fees of \$31,760 as of December 31, 2001. Revenues increased by \$43,901 from the prior year and disbursements increased by \$30,485.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The former Clerk's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Jerry Dean, Former Jackson County Clerk
Honorable Ronald R. Sloan, Jackson County Clerk
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Jackson County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2002, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 3, 2002

JACKSON COUNTY
 JERRY DEAN, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

State Grants	\$	15,804
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State Fees For Services		9,343
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Fiscal Court		4,139
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	303,977
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Usage Tax		322,334
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Tangible Personal Property Tax		635,186
--------------------------------	--	---------

Lien Fees		4,412
-----------	--	-------

Licenses-

Marriage		3,504
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Spouse Abuse		1,430
--------------	--	-------

Deed Transfer Tax		10,339
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Delinquent Tax		58,464
		1,339,646

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	9,595
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Real Estate Mortgages		16,328
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Chattel Mortgages and Financing Statements		42,464
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Powers of Attorney		915
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All Other Recordings		12,714
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Charges for Other Services-

Candidate Filing Fees		900
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Copywork		1,719
		84,635

Other:

Refunds		3,759
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Interest Earned		4,320
		4,320

Total Receipts	\$	1,461,646
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The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
 JERRY DEAN, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	237,122	
Usage Tax		314,114	
Tangible Personal Property Tax		<u>243,709</u>	\$ 794,945

Licenses, Taxes, and Fees-

Delinquent Tax		17,691	
Legal Process Tax		<u>13,569</u>	31,260

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	49,162	
Delinquent Tax		4,729	
Deed Transfer Tax		<u>9,864</u>	63,755

Payments to Other Districts:

Tangible Personal Property Tax	\$	316,575	
Delinquent Tax		<u>32,460</u>	349,035

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries			84,621
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Employee Benefits-

Employer's Paid Health Insurance			1,886
Other Payroll Disbursements			333

Contracted Services-

Printing and Binding			1,392
Records Retention			15,804

Materials and Supplies-

Office Supplies			13,111
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The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
 JERRY DEAN, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Operating Disbursements and Capital Outlay (Continued):

Other Charges-		
Miscellaneous	\$	1,983
Dues		400
Postage		3,561
Refunds		2,071
Capital Outlay-		
Office Equipment		<u>823</u>
Total Disbursements	\$	<u>1,364,980</u>
Net Receipts	\$	96,666
Less: Statutory Maximum		<u>61,306</u>
Excess Fees	\$	35,360
Less: County Clerk's Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2001	\$	31,760
Payment to County Treasurer - February 14, 2002		<u>31,760</u>
Balance Due at Completion of Audit	\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year, and 6.41 percent for the remainder of the year.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the former County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former County Clerk's agent in the former County Clerk's name, or provided surety bond which named the former County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

In the prior year, the former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$15,804. None of these funds were expended during the prior year. Funds totaling \$15,804 were expended during 2001, closing out the Grant.

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COMMENT AND RECOMMENDATION

JACKSON COUNTY
JERRY DEAN, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

NONCOMPLIANCE:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The former Clerk's has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The Clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. This lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We also believe this reportable condition as described above is also a material weakness. Since the former Clerk is no longer an elected official as of the audit report date, no recommendations for implementing compensating controls to offset the lack of segregation of duties will be made. However, we did communicate with the newly elected Clerk about the need for proper segregation of duties within the Clerk's office.

Former County Clerk's Response:

Can't be helped due to budget.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment is repeated in the current year report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Jackson County Clerk for the year ended December 31, 2001, and have issued our report thereon dated December 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Jackson County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Jackson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 3, 2002

